

## A G E N D A



<b>RCA</b>	Austin City Council	<b>Item ID</b>	5000
<b>Meeting Date:</b>	5/26/11	<b>Department:</b>	Treasury

## Subject

Approve an ordinance authorizing three Letter of Credit and Reimbursement Agreements between the City of Austin, JPMorgan, KBC Bank, and Royal Bank of Canada related to the \$248,350,000 currently outstanding City of Austin, Airport System Variable Rate Revenue Refunding Bonds, Series 2005, and approve and authorize all necessary documents and fees relating to these Letter of Credit Agreements.

## Amount and Source of Funding

Funding for the Letter of Credit fee, estimated at \$1,860,000 for Fiscal Year 2011 and funding for the one-time cost of issuance are included in the Fiscal Year 2010-2011 Operating Budget of the Airport Fund.

## Fiscal Note

There is no unanticipated fiscal impact. A fiscal note is not required.

<b>Purchasing Language:</b>	
<b>Prior Council Action:</b>	The City of Austin, Texas Airport System Variable Rate Revenue Refunding Bonds, Series 2005 were approved by Council on August 4, 2005.
<b>For More Information:</b>	Art Alfaro, Treasurer, 974-7882
<b>Boards and Commission Action:</b>	
<b>MBE / WBE:</b>	
<b>Related Items:</b>	

## Additional Backup Information

In 2005, the City entered into an interest rate management agreement to refund part of its outstanding Airport System debt from fixed rate bonds to variable rate obligations. A necessary component of any variable rate demand bonds (VRDBs), is a Letter of Credit and Reimbursement Agreement (LOC). The City entered into a LOC with Dexia Credit Local Bank (Dexia) at the time the VRDBs were issued. A LOC serves two functions: first, to provide liquidity as a purchaser of the securities in the event there are no buyers in the market for the City's VRDBs, and secondly, as a guarantor for the VRDBs were the City unable to make payments for the debt service on the VRDBs. The existing LOC with Dexia expires on May 2, 2011. This request, if approved, will allow the City to enter into a new LOC with a team of three banks for a period of 3 years, with an expiration date of May 2, 2014. The rate for the new LOC is 135 basis points.

Beginning with the Lehman Brothers bankruptcy in 2008, there was a huge credit crunch, coupled with massive downgrades of the banks that were providing liquidity facilities. Additionally, due to the credit crisis that caused the

bond markets to freeze up for a period of time, many bonds failed to be remarketed. This forced liquidity facility providers to actually perform the function for which they were intended for, that is to step up when there is no demand for the variable rate debt that is being remarketed. In performing this function, the liquidity facility banks had to use their capital to provide liquidity associated with these agreements. Many banks either quit participating, or could no longer provide liquidity due to their credit ratings, or lack of capital. This string of market events, coupled with continued demand for liquidity facilities and a diminishing number of providers, forced prices to increase dramatically for those issuers who could secure a credit facility. LOC fees in early 2009 were as high as 175 to 200 basis points.

In mid-2009, the credit crunch began to ease and banks with the capacity and willingness to offer liquidity facilities began to reenter the liquidity market again. In addition to the traditional market players normally associated with liquidity agreements, new banks began entering this line of business. As a result, prices for liquidity facilities have begun trending slightly downward as the market grows increasingly price competitive.

The City's Treasury Office solicited in excess of twelve banks that had previously expressed interest in participating in the replacement of the City's LOC. The team of JPMorgan, KBC, and Royal Bank of Canada responded with a bid of 135 basis points for a 3 year term. The City, in conjunction with the City's Financial Advisor, Public Financial Management (PFM), negotiated the terms of the transaction. Bids were submitted for one year, two year and three year terms, and it is staff's recommendation that the City accept the 3 year bid of 135 basis points in order to avoid renewal risks and eliminate administrative costs associated with a renewal. This is 100 basis points higher than the current LOC, which is at 35 basis points.

If council approves, the City will enter into a LOC with the three banks. The banks' individual commitment amounts will be as follows:

JP Morgan: \$126,012,110 (\$124,175,000 Principal + \$1,837,110 Interest)

KBC: \$ 63,006,055 (\$ 62,087,500 Principal + \$ 918,555 Interest)

Royal Bank Canada: \$ 63,006,055 (\$ 62,087,500 Principal + \$ 918,555 Interest)

Total not to exceed: \$252,024,220 (\$248,350,000 Principal + \$3,674,220 Interest)

In addition to the ongoing LOC fees, there will be certain one-time cost of issuance fees associated with execution of this transaction. The estimated total for these fees is \$290,000 and will be paid to the following entities acting in the capacity noted:

Public Financial Management – Financial Advisor  
Vinson & Elkins L.L.P. – Bond Counsel  
McCall, Parkhurst & Horton – Disclosure Counsel  
Andrews Kurth – Liquidity Counsel  
Standard & Poor's – Rating Agency  
Foreign Counsel  
State of Texas Attorney General  
Financial Security Assurance Inc. – Insurer

